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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JULY 26, 2011

In its weekly SpendingPulse report, MasterCard said US retail gasoline demand in the week ending July 22nd fell by 2.6% or 245,000 bpd on the year and 1.1% or 107,000 bpd on the week to 9.262 million bpd. Demand in the latest four weeks averaged 9.306 million bpd, down 1.3% on the year. It reported that the US average retail price increased by 3 cents to \$3.69/gallon on the week.

Iran's OPEC
Governor Ali
Mohammad said
Khatibi oil
international are
prices to
expected to
increase and
added that Saudi

Market Watch

US consumer confidence increased in June as concerns over the outlook eased. The Conference Board said its index of consumer attitudes increased to 59.5 in July from a downwardly revised 57.6 in June. June's level was originally reported at 58.5. The expectations index increased to 75.4 from 71.6.

The US Commerce Department said new US single family home sales unexpectedly fell in June. It said sales fell 1% to a seasonally adjusted 312,000 unit annual rate as sales in the Northeast fell to a record low. May's sales pace was revised down to 315,000 units from a previously reported 319,000 units. It reported that the median sales price for a new home increased 5.8% in June to \$235,200.

The S&P/Case Shiller composite index of home prices in 20 metropolitan areas held steady on a seasonally adjusted basis. The index was revised to show a gain of 0.4% in April, which was originally reported as a decrease of 0.1%. On a non-seasonally adjusted basis, the index increased 1%, the second month of gains in a row.

The US National Hurricane Center said a low pressure system over the northwestern Caribbean Sea has a 30% chance of developing into a tropical cyclone during the next 48 hours. A slow development of the system is possible during the next couple of days as it moves towards the west-northwest.

IMF chief Christine Lagarde urged the US to quickly resolve a political stalemate over raising the debt ceiling and warned that failure to do so would have serious consequences for the world economy. He called on the US to develop a credible fiscal adjustment plan but cautioned against being too hasty.

ANZ Research lowered its Brent crude price forecast by \$3 to \$120/barrel for the third quarter and cut its WTI outlook by \$12 to \$100/barrel. It believes Brent will continue to trade at a significant premium to WTI buoyed by supply disruptions and maintenance delays in the North Sea and seasonal demand growth for products. It expects crude oil prices to increase to \$125/barrel for Brent and \$105/barrel for WTI at the end of the year.

PDVSA said the debt owed to suppliers increased 55% to \$10.9 billion at the end of 2010 compared with the previous year.

Germany's Deutsche Bank saw its best quarter in commodities trading in April-June due to gains in precious metals, oil and gas. It did not disclose figures but said good performance in commodities helped offset an otherwise mixed performance in its fixed income, credit and commodities trading division which had revenues of 2.3 billion euros, up 8% on the year but down 37% on the quarter. Its Value-at-Risk in commodities increased to 13.2 million euros or \$19 million in January-June compared with 12.7 million euros through 2010.

API Stocks

Crude – up 3.96 million barrels
Distillate – up 2.907 million barrels
Gasoline – down 639,000 barrels
Refinery runs – down 0.3%, at 85.8%

Arabia's decision to increase its crude production cannot prevent a price increase. He said the decision by the IEA not to renew a move to release stockpiles is evidence its price intervention did not succeed.

Iran's President Mahmoud Ahmadinejad may submit the nomination of a top revolutionary guard as oil minister for parliamentary approval. The move could signal a new push by the president to tighten control of the sector.

Iranian Foreign Minister Ali Akbar Salehi will visit Russia at the invitation of his Russian counterpart Sergei Lavrov to discuss Iran's nuclear program. A foreign ministry official did not say when he was scheduled to visit Russia.

Iran's Economy Minister Shamseddin Hosseini said Iran has no unpaid oil bills by China. Separately, an Iranian official said Iran is selling crude to China without any problems. Iran has shipped about 540,000 bpd in the first six months of the year.

Libya's Prime Minister Al-Baghdadi Ali Al-Mahmoudi said Libya would not start talks on ending a conflict with rebels before NATO air strikes stop. He added that Muammar Gaddafi's leadership is not up for negotiation.

Refinery News

Holly Energy Partners is looking at two projects to expand the capacity from the Delaware Basin in southeast New Mexico. The first project would almost double the amount of crude oil carried to HollyFrontier's 105,000 bpd Navajo refinery in Artesia, New Mexico. The capacity of the pipeline would increase to 60,000 bpd from 35,000 bpd and is expected to be completed during the first half of 2012. The second project would restart a petroleum products pipeline and convert it to carry 35,000 bpd of crude from the Delaware Basin to Carlsbad, New Mexico to either a third party pipeline or to HollyFrontier's refinery.

Enbridge said Ozark oil pipeline, which runs from Cushing, Oklahoma to Wood River, Illinois, is scheduled to carry 8% of requested volumes in August. It said shippers requested to send 2.9 million bpd on the 229,000 bpd line. Spearhead oil pipeline from Flanagan, Illinois to Cushing will not be apportioned as nominations of 92,000 bpd fell short of its 175,000 bpd capacity.

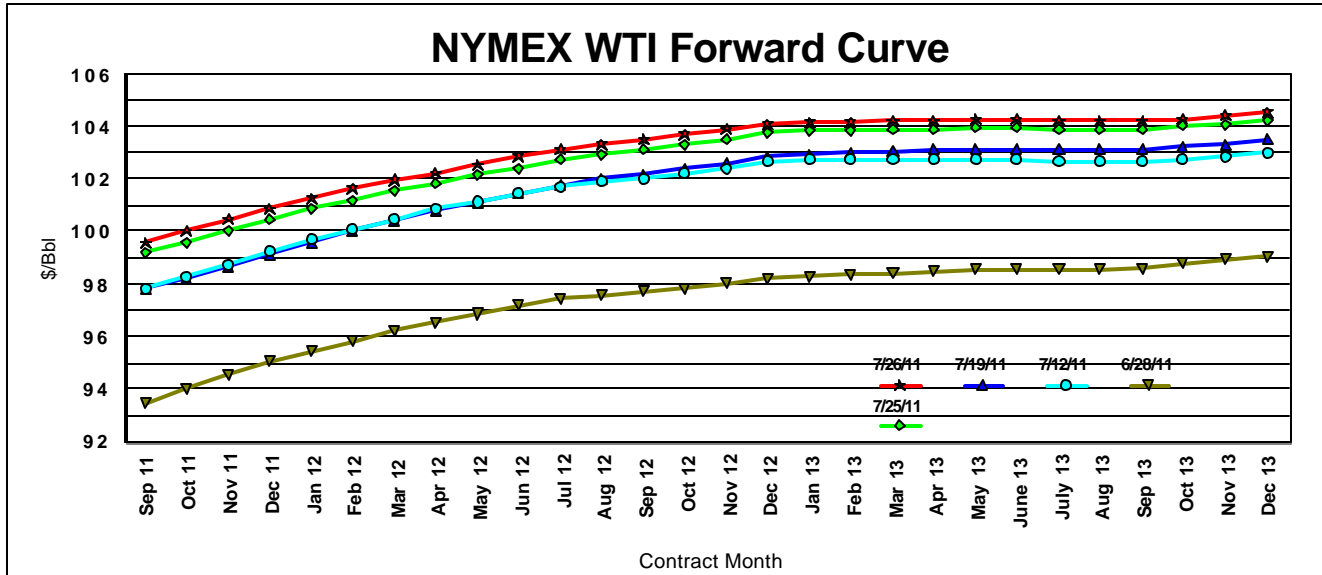
Valero Energy Corp said it will start a three week turnaround on a crude and coker unit at its 142,000 bpd Corpus Christi, Texas refinery in October. It has also scheduled a six week turnaround on a crude and fluid catalytic cracking unit at its 93,000 bpd Three Rivers, refinery in Texas starting in October. It aims to run 25,000 bpd of Eagle Ford crude at the Corpus Christi refinery and increase Eagle Ford processing capability at its Three Rivers refinery to 60,000 bpd from 40,000 bpd.

Citgo Petroleum reported a snag with a flare stack compressor at its 167,000 bpd refinery in Lemont, Illinois that led to emissions.

Coffeyville Resources reported a release of hydrogen sulfide due to unknown causes, possibly due to maintenance work at its 115,700 bpd refinery in Coffeyville, Kansas early Monday.

Marathon said it was operating its Midwest refineries at full rates in the second quarter. It sees a 2-3% increase in US diesel demand this year compared with 2010 levels.

**July
Calendar Averages
CL – \$97.43
HO – \$3.0743
RB – \$3.0947**



Separately, Marathon Petroleum Corp is beginning to ship Bakken crude by rail to refineries in the US Midwest. It does not see the move as a long term supply solution as it expects pipelines to be built to carry the crude. Marathon did not specify to which refineries the light, sweet North Dakota crude would be railed.

Cenovus Energy Inc said a project at the 306,000 bpd Wood River, Illinois refinery to increase capacity to process heavier Canadian crude should be completed in the fourth quarter. It said work on a new coker unit as 98% complete at the end of June. The new equipment would increase coking capacity at the refinery by 65,000 bpd to 83,000 bpd.

Total plans to restart a fluid catalytic cracking unit at its 360,000 bpd Antwerp refinery in early August. The refinery has been undergoing maintenance since April.

Brazil's Petrobras reiterated that PDVSA faced an August deadline to fund its participation in a refinery joint venture. Petrobras was expected to hold a 60% stake in the 230,000 bpd refinery with PDVSA assuming the remaining 40%. The refinery was expected to process heavy oil from both Brazil and Venezuela.

India's Mangalore Refinery & Petrochemicals Ltd said India's crude oil payment impasse with Iran is likely to be resolved by this weekend. It said efforts to resolve the crisis are still in progress. Meanwhile, Saudi Arabia has agreed to sell 3 million barrels more oil to India in August. Sources at Hindustan Petroleum Corp, Bharat Petroleum Corp and Essar Oil said Saudi Aramco had confirmed it would supply each of them with an additional 1 million barrels of crude in August.

Government data showed that India's local oil product sales in June increased by 1.9% on the year to 12.1 million tons. Growth in diesel sales slowed sharply to an annual 2.9% in June compared with a 10.9% increase in May. Gasoline sales in June increased by 0.5% on the year compared to an 8% increase in May.

Turkey's Energy Minister Taner Yildiz said the country would deliver a further 18,000 tons of fuel to the Libyan opposition's National Transitional Council, in addition to 10,000 tons already sent. Turkey delivered the first cargo of fuel as part of a deal to help the rebel government ease energy shortages

in the east of the country. The first tanker arrived in Benghazi late last week carrying 5,000 tons of diesel. A second cargo carrying about 5,000 tons of diesel from Turkey was being delivered.

Russia will export 5.3 million metric tons or about 1.3 million bpd of Urals crude in August from the Baltic Sea port of Primorsk. Russia is also scheduled to export 36 cargoes of Urals crude totaling 3.843 million tons from the Black Sea port of Novorossiisk, three cargoes of Siberian Light totaling 225,000 tons from the port of Tuapse and four cargoes of ESPO crude totaling 338,000 tons from the port of Kozmino in August.

Taiwan's crude imports in May fell by 6.1% on the month to 24.6 million barrels. Demand for oil products in May was down 1.5% on the month at 25.4 million barrels.

Mexico's Pemex said the country expects to reduce gasoline imports to about a third of total consumption by 2016 as it increases refining capacity. Mexico currently imports about 40% of the gasoline it consumes.

German household consumer heating oil stocks stood at about 50% of capacity at the end of June, up from 47% of capacity in early May.

Production News

Valero Energy Corp said maintenance on the Mars oil platform has cut medium sour crude production in the Gulf of Mexico.

BP Plc temporarily shut an oil separation facility at the Prudhoe Bay oil field in Alaska after about 20 gallons of oil mixed with water spilled into a gravel containment pit. The impact on production is expected to be minor and short term. BP said it believes the environmental impact is also minor. The Alaska Department of Environmental Conservation said it expects the facility to remain shut for at least four more days during clean up and pipeline repairs.

A third cargo of North Sea Forties crude has been delayed in August. Vitol's cargo is scheduled to load on August 11-13, three days later than initially scheduled.

Venezuela's Energy Minister Rafael Ramirez said the country plans to produce 140,000 bpd of oil by the end of the year from new fields in its Orinoco extra heavy crude belt. The new production would come from the Junin and Carbobob blocks.

BG Group Plc said almost all of the extra 3 billion barrels equivalent of oil and gas reserves the company added in Brazil in June are in previous discoveries that can be produced without additional capital expenditure.

China's Sinopec Group will take a 40% stake in a consortium developing a marginal oil field owned by Malaysia's state oil and gas company, Petroliaam Nasional Bhd. The field contains an estimated 30 million-50 million barrels of crude.

Ecuador expects to increase its oil production by about 4% next year to 188 million barrels from the 181 million barrels projected for the year. It is expected to export 137.6 million barrels of crude in 2012, up 9.5% on the year. According to preliminary projections, Ecuador plans to spend about \$5 billion next year to import 47.7 million barrels of refined products. Ecuador's average oil production in the first quarter was 503,000 bpd.

Valero Energy Corp's second quarter earnings increased 28% due to stronger refining margins and volume growth. Its refining operations earnings increased 39% as margins increased 19% and

volume grew. Its retail operating profit increased 24% amid strong fuel margins. Valero said it sees no improvement in US gasoline and diesel demand. It also stated that it sees continued pressure on WTI discounts in the Midcontinent. It said its most profitable refineries are those that run WTI priced crude in Oklahoma and Texas.

Occidental Petroleum Corp's second quarter earnings increased 71% on higher crude oil prices. Its profit increased 37% in the company's oil and gas business, mainly due to higher crude oil prices.

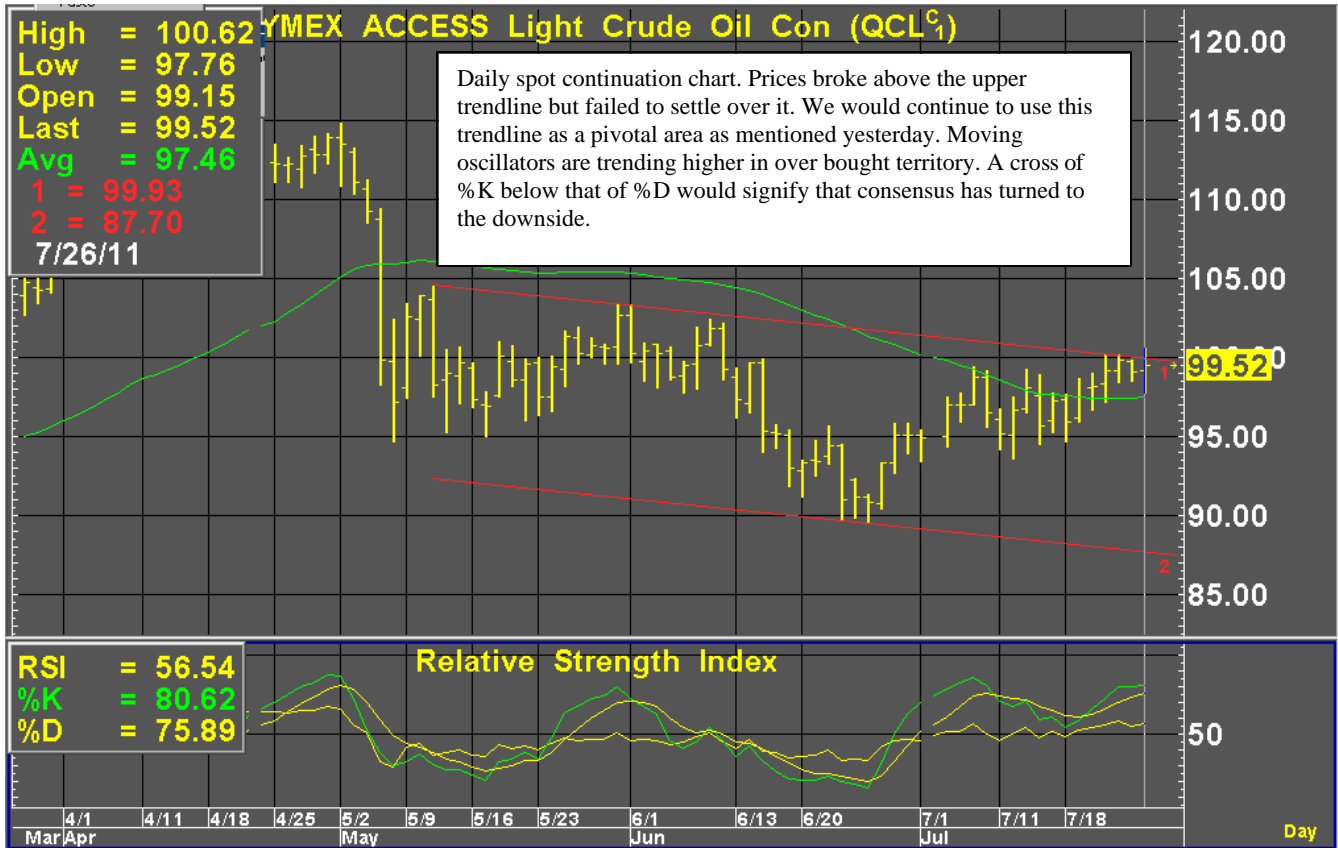
BP Plc posted a loss in oil supply and trading in the second quarter. It did not give a reason for the loss in the quarter but said it weighed on its profit from refining oil and selling fuels. Earnings from refining and marketing were \$1.34 billion in the second quarter, down 36% on the year.

Market Commentary

Political turmoil in regards to the U.S. debt ceiling put pressure on the dollar, which in turn bolstered crude oil prices. The September contract breached the \$100 mark and found resistance at \$100.62. Trading was once again choppy and volume was light. Until we hear of a definitive compromise in regards to the U.S. debt ceiling, trading should remain irregular, with prices bouncing around \$100. With today's move higher it is evident that the near term bullish consensus is still in existence and we expect that prices will continue to work towards \$102.22, the 50 percent retracement of \$89.61 and \$114.83. A close below the 200-day moving average of \$94.75 could shift the momentum of this market, calling for a test at the channel bottom, which now stands at \$87.70.

Crude oil: Sept 11 370,483 -6,670 Oct 11 92,336 -2,730 Nov 11 78,377 +1,476 Totals 1,498,061 -2,765 Heating oil: Aug 11 34,848 -7,107 Sept 11 93,034 +5,694 Oct 11 38,172 +1,044 Totals 317,114 +1,166 Rbob: Aug 11 23,179 -7,314 Sept 11 97,446 +2,801 Oct 11 34,732 -358 Totals 258,641 -3,626

| Crude Oil | | Heating Oil | | Rbob | |
|------------|------------|-------------|------------|---------|------------|
| Support | Resistance | Support | Resistance | Support | Resistance |
| 9924 | | | 31379 | | |
| 9746 | 10071 | 27150 | 32777 | | 33369 |
| 9428 | 10222 | 26680 | 33370 | 26965 | 35915 |
| 9355 | 10339 | 27375 | 33510 | 26300 | 36310 |
| 9122 | 10845 | 23685 | | 25683 | |
| 8950 | 11120 | 22960 | | 25145 | |
| 8700 | 11483 | | | 24240 | |
| 8625 | 11563 | | | 23631 | |
| 50-day MA | 97.46 | | | 23414 | |
| 200-day MA | 94.75 | | | | |



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